

Growing Rural Entrepreneurs

Since 1998, alt.Consulting has worked with over 1000 small businesses and entrepreneurs in the most remote and rural areas of Arkansas and Mississippi in addition to some limited work with businesses in rural Louisiana, Alabama, West Virginia, and North Carolina. The insights and thoughts expressed in this paper come directly from our experience in working one-on-one with these entrepreneurs in predominantly rural, low-wealth areas of the country.

The more remote a community in Arkansas, the less likely it is to recruit a company and the more dependent it is on jobs created by local entrepreneurs. The more remote a community in Arkansas, the more an entrepreneur there requires skill building, knowledge about and access to outside markets, business networks and alternative sources of capital. The entrepreneurs in the more remote communities of Arkansas are least likely to leave their businesses and drive long distances to receive help, least likely to trust outside resources, and least likely to fully utilize technology. The more remote a community, particularly in Eastern Arkansas, the more likely it is experiencing the lowest levels of personal income, the highest levels of unemployment and the lowest standard of living.

In order to comprehensively address entrepreneurship as a vehicle to increasing personal income in the state, Accelerate Arkansas must address the needs of the entrepreneur in the remote communities. We recommend building a strategy around the successful FedEx model of serving even the most rural communities in this country efficiently: the hub and spoke. The E-Centers serve as the hub with direct access to entrepreneurial resources and a focus on continued innovations. E-Solutions, discussed in more detail below, will serve as the spokes reaching deep into remote communities to problem solve with entrepreneurs and provide them customized managerial assistance at their site of business while always being connected to the resources at the E-Center.

Rural Businesses

The types of businesses in rural areas are not that different from those in other areas. The difference is in their value to the community and their isolation. In our work, we have identified five primary types of rural businesses. Below we will define these five types of businesses and the impact each type has on one remote community of 350 people in south Arkansas.

Lifestyle Businesses – These are usually very small home based businesses used to generate patching income that helps lift families out of poverty.

Small town example - A woman has a home-based computer repair business. The business provides some extra income for the family and a

needed service in the town but also allows her the flexibility she needs to take care of her family.

Micro Enterprise – This is a small business that consistently provides between 1 and 3 jobs and will probably never grow beyond that.

Small town example – There is one store in this town and the store provides two full time and two part time jobs. Because of the town size and location, the store will probably never grow, but the jobs and the services it provides are very important for the community. These jobs let people work close to home and the part time jobs help young people earn money for college.

Micro-Growth Businesses – These businesses started very small with only one or two employees but have grown and/or have the potential to grow and provide good jobs, benefits and growth potential.

Small town example – A small logging business transferred to the 2nd generation continues to provide about 5 or 6 jobs. The business under this new leadership has the potential to grow and provide more jobs.

Growth Businesses – These businesses start with a larger market than just the local community and offer real growth potential.

Small town example – A local couple started a small trucking company 20 years ago. This company has grown and now provides jobs to 20 truck drivers, 3 full time mechanics, and an office staff of 7.

Innovation Business – These are businesses that provide some level of innovation with market potential beyond the local community. They may or may not be high tech.

Small town example – The welding business has grown from a traditional welding shop to a specialty machine shop, manufacturing mechanical parts for larger companies. This small company provides parts for large regional and international companies. The company has 9 full time employees.

The community used in the above examples is like most remote communities in Arkansas. There are no basic business services for entrepreneurs, there are no accountants, no business network and no attorneys. Employees come from the local community but building a second level of management in order to grow the business is challenging.

Challenges for Rural Entrepreneurs

Arkansas is a rural state and a state of extremes with areas of high wealth, a growing population and virtually no unemployment compared to areas of extreme poverty, a declining population and double digit unemployment

The challenges for entrepreneurs in rural areas are unique. Traditional business challenges may be the same for all entrepreneurs but the remote nature of rural Arkansas adds another layer of complexity. These rural entrepreneurs will benefit from a solution that meets the entrepreneurs and works with them where they are.

Some of the challenges rural entrepreneurs face include:

A culture that is not focused on entrepreneurship – Arkansas continues to focus efforts and funding on attracting businesses to the state rather than growing businesses in the state. Rural entrepreneurs are not accustomed to asking for or receiving assistance. Young people in rural communities do not consider entrepreneurship as a possible career unless they have strong, successful entrepreneurs in their community as role models.

Distance – Many rural entrepreneurs cannot leave their business for a day of travel and training. If they do, they often return completely overwhelmed and unsure how to implement what they have learned in their business and end up continuing to do what they have always done. Most of the small rural businesses do not have second level management, making it even harder for the entrepreneur to be away.

Limited Markets – Most entrepreneurs launch their business by relying on the local market. In rural communities, the local market is too small to sustain and grow most entrepreneurial ventures. Those entrepreneurs who can either diversify their product and services offering or reach into surrounding communities or even regional and national markets are the ones who will become sustainable Growth Businesses. Entrepreneurs in these communities need assistance in understanding and accessing outside markets.

Education Levels – Most of the rural entrepreneurs we have met are extremely bright but may not have the management skills or technical skills they need to grow their businesses. Many lack a formal higher education. Our clients whose formal education ended with high school report that they do not feel comfortable in a university setting and do not have the confidence to go on campus for training seminars. These entrepreneurs need to build their skills at their own pace in their own environment.

Problems vs Symptoms – In ‘Building Systems for Entrepreneur Support’, Erik R. Pages states that most communities do not suffer from a shortage of providers but research shows that most entrepreneurs cannot find the right services to ‘fix’ his/her problem. Our clients have reported that when seeking assistance prior to working with us, they had been referred to other resources that referred them to yet other resources without having someone analyze their problem. If they found a local resource, they would get advice on addressing the symptom but not the cause of their problem. For example, a cash flow problem is a symptom of a bigger problem – too much inventory, uncollected receivables, pricing and even theft. The easy answer, a loan, often does not solve an entrepreneur’s cashflow problems but just exacerbates the underlying issues.

Trust – Rural entrepreneurs do not have networks or contacts so have difficulty identifying someone they can trust to discuss business issues. They will not trust an outside resource unless that person comes recommended by another local entrepreneur, church or community leader.

Access to Capital – While this issue impacts many entrepreneurs in urban and rural markets, it is especially challenging for entrepreneurs in the remote areas of the state, particularly in Eastern Arkansas. Currently healthy, growing businesses cannot access the working capital they need because neither the owner nor the business has assets attractive enough for a collateral-based lender. Often they turn to predatory lenders and pay rates of 25% to 35% which their margins cannot sustain. Rural communities in Arkansas have not produced angel investors even in those towns where high-net-worth individuals live. Arkansas' net worth in rural communities comes from agriculture and those individuals are often not comfortable evaluating business deals.

Lack of local resources- Many entrepreneurs know they need help, but they don't have access to local resources. Many of the rural areas do not even have CPAs or available CPAs primarily provide tax services and not the counseling and training entrepreneurs need.

Networks, Peers, and Mentors – Rural entrepreneurs, especially, have limited access to peers through either formal or informal networks. In some cases, this is by choice because of the trust issue. In other cases, this is a result of where they are located. And, in some cases the entrepreneur has had a bad experience with a lack of confidentiality in a small community where everyone knows one another.

E-Solutions for Rural Businesses

While the E-Center concept is a strong one, based on our experience it will not address the needs of all entrepreneurs, particularly those living in rural communities and more specifically those living in the remote communities of Eastern Arkansas. We would like to address the above challenges with an additional resource which we will term E-Solutions.

E-Solutions is a group of highly trained individuals who are knowledgeable about the innovative resources provided by the E-Center. By building strong personal networks in rural communities, E-Solutions is able to respond to the needs of rural entrepreneurs by working on-site at their sites of businesses, providing individualized business training on management systems and tools.

E-Solutions address the challenges faced by rural entrepreneurs in the following ways:

Challenge	Solution
Culture not focused on entrepreneurs	By having a business resource available locally to help entrepreneurs test the feasibility of their concept, more individuals will follow their entrepreneurial aspirations which will in turn inspire others.
Distance	Entrepreneurs will receive assistance at their site of business allowing them to incorporate what they learn directly into their business.
Limited Markets	E-Solutions will research and introduce entrepreneurs to additional products and services or assist them in accessing other markets.
Education Levels	Entrepreneurs are in a comfortable and known surrounding where they can learn at their own pace.
Problems vs Symptoms	E-Solutions providers are trained to identify causes of problems and develop strategies with entrepreneurs to address those.
Trust	E-Solutions builds networks in rural communities so that entrepreneurs find out about the assistance from community leaders they trust.
Access to Capital	E-Solutions provides the same capital tools to entrepreneurs as the E-Centers. These tools will include lines of credit, cash-based lending and equity tools.
Lack of Local Resources	E-Solutions will connect entrepreneurs with bookkeeping services, attorneys and business services available in other towns or Little Rock.
Networks, Peers and Mentors	E-Solutions will identify possible peers and mentors via the comprehensive database of the E-Centers to connect entrepreneurs across the state.

Referrals to E-Solutions would come through the standardized E-Center database or directly to E-Solutions staff who would then enter the information in the database.

Because of the trust issue, E-Solutions will collect outcomes data on its clients and include it in the overall E-Center database.

By gaining first hand knowledge about the rural communities in which it works, E-Solutions will identify entrepreneurial opportunities, situations requiring a succession plan or sale of a business as well as existing businesses with significant growth potential. In each case, E-Solutions is there to guide the necessary processes to ensure that these opportunities turn into successful businesses and jobs for Arkansans.

Building on a Successful Model

As in a hub and spoke model, the E-Centers serves as the hub with direct access to such resources as alternative sources of capital, customized market research, technology based tools, etc. while E-Solutions serves as the spokes, reaching deep into remote communities to create a link back to the E-Center resources while problem solving and providing skill-building for entrepreneurs at their site of business at their own pace.

The E-Solutions model is built on alt.Consulting's eight years of one-on-one work with entrepreneurs as well as other non-profits, municipalities, community leaders, and partners.

alt.Consulting began its Delta operations with one full time employee and a model that was developed working with minority clients in both urban and rural counties of North Carolina. The model has been adapted and expanded over the last eight years to respond to a much larger rural area with fewer available resources, a disappearing middle class, and a history of racial problems and tensions. Impact data is available to demonstrate that this model can grow entrepreneurial ventures in low-wealth communities and create jobs.

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